European Journal of Business and Management
ISSN 2222-1905 (Paper) ISSN 2222-2839 (Online)
Vol.6, No.37, 2014
www.iiste.org

# Corporate Governance in Pakistan and Need of Corporate Performance Measurement: An Empirical Study

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*Special thanks to Mr. Asif Moeed and Ms. Aisha Saeed for helping in data collection*

**Abstract**
This research examines the impact of corporate governance on the performance of firms in Pakistan. Corporate governance revolves around the basic principles of fairness, transparency and accountability. The term Corporate Governance is used to describe a process, which has been practiced for as long as there have been corporate entities. Corporate governance is critical to improving economic efficiency and growth. It serves as a deterrent to mismanagement and infuses discipline in the decision making process of boards of directors. A number of surveys of investors in Europe and the US show that investors eventually reduce their investments in a company that practices poor governance. Controlling for initial conditions and sector-specific effects and using several measures of enterprise performance. Since the monitoring of the compliance of the financial aspect of the Code is being done by more than one institution, companies usually end up following it, as Securities and Exchange Commission of Pakistan (SECP) has not introduced any proper institution to check companies' compliance with the non financial aspect of the code, and there is no proper tool in place to gauge if the companies are really complying with it, companies' compliance with the non financial aspect of the code usually remains on paper only, and Code of Corporate Governance has no direct effect on companies performance.
**Keywords:** Corporate Governance, Corporate Performance Measurement, Balanced Scorecard.

## INTRODUCTION

Corporation and Governance are not new terminologies in business world. However, Corporate Governance is becoming a buzz word in the corporate world of Pakistan for last decade. The basic reason of this new terminology and its importance is SECP has made it compulsory for all listed companies in Pakistan to follow the established standards of Corporate Governance and publish it in the annual reports for all concerned stakeholders.

There is a growing interest in concept of corporate governance in Pakistan, mainly because corporate governance is a key to developing a market economy and civil society in transitioning economies like Pakistan. This question can be born in mind how corporate governance helps in transforming economies? And the answer is corporate governance is a relatively new term used to describe a process. This process seeks to ensure that the business and management of corporate entities is carried on in accordance with the highest prevailing standards of ethics and efficacy upon assumption that it is the best way to safeguard and promote the interests of all corporate stakeholders. Holding this assumption that when listed companies follow the established standards of corporate governance, this will improve the performance and confidence of organization and all stakeholders respectively of not only of one organization but of over all economy, altogether.

Since the code is practiced, has it been helpful to improve the performance of organizations? Do organizations achieve the set objectives by the compliance of these codes? Has SECP achieved her objectives? In order to get the answers of these questions this research is conducted which is primarily secondary data based. The data is collected through the observation of annual reports of the concerned organizations.

 

## LITERATURE REVIEW:

### Economic Highlights Before 2002

Ex-Prime Minister, Mr. Shaukat Azia – when he was minister for finance and economics – in June 2000 shared the economic highlights of that time. According to him the condition of Pakistan was very challenging and the country was facing enormous concerns like some macroeconomic activities and their stability, restoring the confidence of investors and businessmen, augmenting the growth rate, reducing and managing poverty, and improving governance issues, particularly public sector departments and offices, so that the confidence of general public can be increased. To tackle all these concerns and putting the country back on the track of progress, a comprehensive and multidimensional strategy was needed. In other simple words the country was demanding growth and stability and both of them required consistent and committed efforts from all sectors in the country and the effective role playing of all concerned departments and public sector employees. Had this happened, the country can be steered towards self-reliance, which is the call of time. Because of governmental policies, a meek recovery of economic growth could be managed in the fiscal year, 1999-2000. This recovery should certainly be modest because of some obvious reasons and these were ineffective implementation of policies and non-stabilization policies. The required infrastructure was also not developed. The statistics showed that the performance of large-scale manufacturing was reduced to around one-half of what the country could achieve in the era of 80s. Along with this, the service sector was showing the growth of 4.1% only in comparison of 6.6% in 80s. Investment also had been declining in 90s because of poor performance of large-scale manufacturing and service sectors. This poor investment rate was also responsible for poor growth in 90s like public sector investment deteriorated from 9.1 to 5.3 in the same decade. Mr. Shaukat Aziz further said that considering these facts of economic growth slump; the demand of time was to focus on increasing the growth momentum and the confidence of investors to spur the economic activities. This further needed to design the appropriate economic and public policies and their implementation to affect positively the economic growth rate. These would help in developing and stabilizing macroeconomic environment the betterment of the country (Aziz, S., 2000).

The right time to notice the measures taken by government of Pakistan and their results was year 2000-01. The synopsis of the policies, measures and implementation show the performance of the country. The economy of Pakistan made considerable development in year 2000-2001. Pakistan successfully maintained the relationships with the international community and along with this the exploitation of all kinds of resources to ensure the revival of the country and move back on the track of progress. The government realized to have high and sustainable growth in the country, the government has to focus on sound macroeconomic environment that could increase the confidence of local and international investors and economic activities can be possible. Government realized that this needs structural reforms, changes and consistency of the policies. The desired results in short run period were like lower fiscal and current account deficits, higher industrial growth and a persistent and stable inflation. Along with these, government took the measures like fiscal, monetary, and exchange rate policies as mainstream changes to have better impact on economy and sustainability. Changes never happen in isolation and many changes support each other. Like stabilization alone could not give sound results unless structural reforms to be handy for them. Both of them made possible the enhancement of economic initiatives along with improved allocation of resources and they eventually caused elimination of hurdles for private sector development. Changes were required on financial side as well. Government changed the regulatory role of State Bank of Pakistan (SBP) and banking companies' ordinance that ensured the capital adequacy in the banking sector along with some changes that meet the requirement of international practices in the banking sector of Pakistan. Besides these, the insurance sector was deregulated and SECP (Security and Exchange Commission of Pakistan) was empowered (Economic Survey, 2001-2002).

### Initiation of Corporate Governance

Ownership has been a sensitive issue and particularly in case of public sector organizations it causes more complexities in Pakistan. Barbosa and Louri, (2002) shared that the corporate governance has some relationship with the ownership. Ownership in an organization determines the appropriation of profitability. Agency cost is one of the important aspects has been discussing in literature. The structure of ownership works as incentive device for the owners and it affects the agency cost as well and this can be used to protect the property rights of the firm. Berle and Means determined in 1932 that the dispersed owners (shareholders) have transferred their control of the business to the hired managers as the corporate governance is developed. In such situations, generally firms do not perform very efficiently. Later on Jensen and Meckling (1976) and Shlefier and Vishny (1986) examined through empirical researches the relationship between the ownership structure of an organization and its performance.

### The Pakistan Corporations

Ex-Prime Minister, Shaukat Aziz (2000), put some light on different regulatory authorities to control different corporate sectors. He initially discussed the background of companies' ordinance. Companies Ordinance came into being in 1984 when Indian Companies Consolidation Act was amended. Pakistani companies have been established and governed according to the Companies Ordinance 1984. The regulatory authority to ensure this thing is SECP in Pakistan. In addition to SECP, there are some special laws prevail which regulate the special companies in Pakistan. There is another institution with the name of stock exchange, which is also responsible to regulate the listed companies. Banking companies are regulated by the State Bank of Pakistan. NEPRA (National Electric Power Regulatory Authority) is another regulatory authority to manage the companies involve in generation and distribution of electric power in different parts of the country. Similarly, Pakistan Telecommunication Authority (PTA) is responsible for the firms provide telecommunication services and last but not the least, Oil and Gas Regulatory Authority is responsible for oil and gas based companies (Aziz, 2000).

**Need of Corporate Governance**

Ex-Prime Minister, Shaukat Azis (2000) further added on and highlighted the need of corporate governance in Pakistan. He said, "the corporate governance is not new in the world and it is very popular in both developing and developed countries because it is becoming necessary for investment of capital in these economies." According to him; it has been noticed that weak system of corporate governance causes impediments in investments in short run and lack of economic development in full swing in the long run. The findings of the McKinsey survey conducted in 2000 pointed out that investors show interest to pay even large premium to the companies having effective and efficient corporate governance. Some other surveys have also been conducted and the findings are more or less same and investors in Europe and US support the same conclusions and hesitate in investing those companies which are not having effective corporate governance.

Mr. Shaukat Aziz emphasized two vial purposes that are common across the world:

1) Corporate Governance increases the performance of companies by developing the desired culture in which owners, directors, employees and intrapreneurs are motivated to enhance the operational efficiency.
2) Corporate Governance should transform an organization into law abiding firm that establishes a system where directors and employees control their behavior and remain accountable to the all concerned stakeholders. This makes the control and monitoring of corporate performance possible and participation of other stakeholders in decision making (Aziz, 2000).

Kenneth Scott at Stanford Law School in 1999 comprehensively advised on the corporate governance that "In its most comprehensive sense, "corporate governance" includes every force that bears on the decision-making of the firm. That would encompass not only the control rights of stockholders, but also the contractual covenants and insolvency powers of debt holders, the commitments entered into with employees and customers and suppliers, the regulations issued by governmental agencies, and the statutes enacted by parliamentary bodies. In addition, the firm's decisions are powerfully affected by competitive conditions in the various markets in which it operates. One could go still further, to bring in the social and cultural norms of the society. All are relevant, but the analysis would become so diffuse that it risks becoming unhelpful as well as unbounded" (Scott, 1999).

One of the findings of research study conducted by the McKinsey that institutional investors are ready to pay around 30% more than the market if company is exercising good governance. The financial results of these companies are also better such as the book ratios. The rating agencies are also looking at the good governance and corporate governance practices of organizations (Sriram, 2005).

Having discussed all these considerations, the time comes to determine what to do to develop the harmony and culture (in any society) so that the practices of different organizations make common and some common methodologies are devised to run the business and report about the performances of the organizations to present and potential investors. Here the role of third party comes. This third party should be responsible to do some sort of audit to measure the health of implementation of rules and methodologies so that the confidence of the investors be restored and enhanced. The examples of third party are; banks for credit limits and borrowing, exchequers for duties and taxes, and suppliers for the value of supplies and services. Similarly, the business world needs some regulatory authority that could ensure the development and execution of common laws and rules and uniform reporting systems (Iqbal, 2007).

**Definition of Corporate Governance**

"Governance is the manner by which a function is conducted, and hence corporate governance is the manner by which corporations are and should be conducted. The term contains many attributes of which trust, transparency and accountability are fundamental aspects. It includes all aspects that are significant to decision making in a company" (Commonwealth Secretariat & GCG Forum, 2006). **OR**

A basic definition of corporate governance, which has been widely recognized, was given in a report by the committee under the chairmanship of Sir Adrian Cadbury tiled *The Financial Aspects of Corporate Governance* (the Cadbury Report) in 1992.

"Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the directors include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The Board's actions are subject to laws, regulations and the shareholders in general meeting" (Cadbury, 1992).

**Code of Corporate Governance**

The manual of corporate governance issued by SECP in 2002 explained, "The Code" as; this code is designed by accumulating the best practices to offer a framework or standard so that companies listed in various stock exchanges in Pakistan can be steered and their activities be controlled in line with the protecting the interests of different stakeholders. This manual also shares the experiences of other countries – particularly those countries whose common law matches with Pakistan's - in designing and structuring the corporate governance model. Such as, the recommendations of the King's Report (South Africa), the Principles of Corporate Governance published by the Organization for Economic Cooperation and Development in 1999, the Report of the Hampel Committee on Corporate Governance published in January 1998 (U.K.), and The Code of Best Practice of the Cadbury Committee on the Financial Aspects of Corporate Governance published in December 1992 (U.K.). This code is important to furnish the framework as standard against which the good governance is measured in Pakistan (Manual of Corporate Governance, 2002).

**Compliance with the Code of Corporate Governance**

One study was conducted by government of Pakistan in 2003 with the title of, "Impact Assessment of the Code of Corporate Governance 2002". The recommendations of this study, which was focusing the data of 2002, were; all listed companies in different stock exchanges of Pakistan are bound to publish a statement in their annual reports the status of their compliance with the corporate governance best practices. This statement must be reviewed and certified by the statutory auditors of the companies. The code also mentions one of the provisions that the areas where SECP feels about any clause is not practicable and can not be complied with, the commission may relax the same subject related with this clause to such conditions as it may deem fit (Impact Assessment, 2003).

**Enforcement of Corporate Governance**

A workshop was organized by the Commonwealth Secretariat in 2006, Maldives and in which Mr. Zahid Zaheer presented a country paper of Pakistan. In this paper he presented the enforcement of corporate governance in Pakistan. According to him, SECP in Pakistan is taking keen interest in implementation of regulations of corporate governance. Asian Development Bank is also providing SECP technical assistance in this enforcement. World Banks has also granted award of IDF for the same purpose. Role of State Bank of Pakistan is also vital and SBP seems quite active in the enforcement of code of corporate governance in the listed banks of Pakistan. Besides this, SBP has also issued a list of approved auditors for this evaluation of compliance of the code. Along with this, the role of Institute of Chartered Accountants of Pakistan (ICAP) is pivotal and ICAP is instrumental in the enforcement of the code and corporate governance reformation in Pakistan. Stock Exchanges are not far in this run and they also administer the compliance of the code along with other listing requirements (Zaheer, 2006).

**Improve Compliance Area**

The compliance of the code of corporate governance is actually controlling technique. Poor compliance indicates two aspects; one is the regulatory instrument is not effectively designed or the companies are either not taking it seriously or the application of regulatory principles are not effective. The compliance gives priority to three important areas and these are:

- The beneficial ownership and stakeholders needs to be disclosed and it should increase the control of stakeholders.
- Companies must report all relevant transactions.
- The compliance must deal with and be dealt with AGM of the companies.

As a controlling technique, the compliance of the code measures the impact on environment, economic, and social aspects of organizations – positively or negatively (Impact Assessment, 2003).

There have been many researches conducted in Pakistan to evaluate the compliance of the code of corporate governance and one of the comprehensive studies was conducted by IFC in 2007. The study was conducted in collaboration with SECP, ACCA, and PICG. Around 26 questions were asked from different corporate boards and during the research they shared the views that this is good for organizations and there has been a desire to measure the compliance of the code of corporate governance on time to time basis. This research study indicates some gaps and some of the practices of organizations regarding the compliance is very shallow. It was common understanding by realizing the importance that this compliance should have been universal in nature and no matter big or small companies are have to use and abide by the principle of the code of corporate governance. The findings of this study advocates that the shallow practices of organizations and corporate boards can not be subsided simply by a prescription, rather continuous and committed efforts are required in terms of the compliance of the code. Some respondents of the study shared their belief that the good governance is like a guarantee of success. One thing is certain and that is all stakeholders have to feel the responsibility and share their role effectively to bring change in effective manner and not only organizations but the entire economy can reap the benefits of the corporate governance (IFC, 2007).

## FRAMEWORK

### Objective

The purpose of this research is to study the impact of Corporate Governance on company performance. This is an attempt to develop an understanding of if and how far has the code of Corporate Governance been successful in improving corporate performances. Moreover, it is to learn what tool is being used by companies as a parameter to gauge the effect of Corporate Governance on company performance.

### Problem Statement

In October 2002, SECP introduced the code of Corporate Governance with an aim to improve and to bring transparency in corporate practices. It is 2012, almost nine years have passed since then. The time is ripe to find out whether the purpose for which the code was introduced was achieved or not; if corporate management has been successful in implementing the code in its true sense; has the code been successful in increasing corporate performances and investors' confidence and approaches and companies are using significant tools or approaches to measure the compliance of the code or has it been a myth all along.

### Research Questions

There are two research questions to conduct this study. These are:

1. What is the impact of Corporate Governance on Company Performance?
2. Is there any tool or approach used to measure the compliance of corporate governance?

Although there are many factors part of the code of corporate governance, yet this research focuses on the impact of the code on company performance and what tools or approaches are being used by the companies to measure the compliance of the corporate governance.

### Hypotheses

There are two hypotheses are developed considering the research questions. These are:
Ho1: Impact of corporate governance on company performance is mentioned in the annual reports
HA1: Impact of corporate governance on company performance is not mentioned in the annual reports

Mathematical version is: Ho1: $\rho Per = 0.5$
HA1: $\rho Per \neq 0.5$

Ho1 = Null hypothesis
HA1 = Alternate hypothesis
$\rho Per$ = Impact of corporate governance on company performance is mentioned in terms of proportion.

Here null hypothesis states that there is significant evidence that companies are mentioning the impact of corporate governance on company performance. In case the null hypothesis is rejected, the alternate hypothesis states that companies are not mentioning impact of corporate governance on company performance in their annual reports.

Ho2: An approach or tool is used to measure the compliance of corporate governance.
HA2: An approach or tool is not used to measure the compliance of corporate governance.
Mathematical version is: Ho2: $\rho Comp = 0.5$
HA2: $\rho Comp \neq 0.5$

Ho2 = Null hypothesis
HA2 = Alternate hypothesis
$\rho Comp$ = A tool is used to measure the compliance of corporate governance.

Here null hypothesis states that there is significant evidence that companies are using any tool or approach to measure the compliance of corporate governance in organizations. In case the null hypothesis is rejected, it indicates that company is not using any tool or approach (like Balanced Scorecard) to measure the compliance of corporate governance.

### Significance

This research will:

- Help SECP in bringing improvements in the compliance of Code of Corporate Governance.
- Help researchers to come up with better suggestions and ideas to improve general attitude of the corporate sector towards adopting Best Corporate Practices.

### Scope of Research

In the course of this study the researcher will be studying annual reports of companies to find out whether the companies are following the code in its true essence or the code has just been a piece of law being quoted as a necessary element of annual reports. Moreover, the researcher will study that if the companies are actually following the code, then what has been its impact on company performances.

 

**Limitations**

The limitations of the study are as under:

1. This is non-survey based research.
2. The researcher is ended up giving generalized findings for this research.
3. It is an inductive approach and the findings of this study are an approach of generalization that will be tested through deductive approach, the later part of PhD dissertation.
4. The researcher gathers data in dichotomous format by reading the annual reports and used single proportion hypothesis testing to establish the facts.

**RESEARCH METHODOLOGY**

Being non-survey based research; only secondary data is collected from internet, annual reports of companies and books. No primary data collection is collected. However, annual reports of around eighty companies were selected. The researcher gathered data in dichotomous format and used single proportion hypothesis testing to establish the facts and observed the impact of corporate governance on the performance of these respective companies and are companies using any tool or approach to measure the compliance of the code of CG. The selection of data was non-probability based. No sampling was required except the selected articles were merely relevant to the subject matter of the study.

**FINDINGS**

Inception of this research study was done by first studying the manual of Code of Corporate Governance in detail. Before findings are shared, the researchers would first like to quote some references from the manual itself:

- ❖ *Clause 2.2: As part of its multi-dimensional strategy to enable Pakistan's corporate sector meet the challenges raised by the changing global business scenario and to build capacity, the SEC has focused, in part, on encouraging businesses to adopt good corporate governance practices. This is to provide transparency and accountability in the corporate sector and to safeguard the interests of stakeholders, including protection of minority shareholders' rights and strict audit compliance.*
- ❖ *Clause 2.22: The Code is a compilation of principles of good governance and a combined code of good practices. The Code provides a framework tailored to address the complexities of the corporate sector in Pakistan and also draws together recognized best practices as embodied in various prominent international models of corporate governance.*
- ❖ *Clause2.23: Compliance with the provisions of the Code is mandatory except for two that are voluntary in nature. The mandatory provisions deal with such matters as directors' qualifications and eligibility to act as such, their tenure of office, responsibilities, powers and functions, disclosure of interest, training, meetings of the Board of directors and the business to be conduct by it, the qualifications, appointment and responsibilities of Chief Financial Officer (CFO) and company secretary, the appointment and responsibilities of the Audit Committee, the appointment and responsibilities of internal and external auditors, and compliance by listed companies with the Code.*

The Manual is divided into seven sections namely:

- Introduction
- What is corporate governance?
- The need for corporate governance
- The stakeholders
- Promoting reform and shareholder activism
- Role and responsibilities of directors and managers
- Scrutinizing financial statements – what every director should know

Further, findings are basically divided into two parts:

- ➢ To what extent the companies are following the code of corporate governance
- ➢ Effect, if any, on the performance of companies by following the code of corporate governance

Lets see the **FIRST** part of these findings:

From the detailed reading of the code it is come to know that the code basically has two aspects; one being financial and the other being non financial. Financial portions of the code of corporate governance basically deal with all the financial matters concerning a company.

Major portions of the financial aspect of the code are extracted from the Companies Ordinance 1984. And since the listed companies are all registered under the Company Law, the companies automatically end up following the financial portion of the code.

Section 6 of the Manual of Code of Corporate Governance deals with the roles and responsibilities of directors and managers. It deals with their appointment, duties, powers, responsibilities, liabilities etc. Being a listed company and registered under the Company Ordinance 1984, companies strictly adhere to requirements stated in the section 6 of the manual as SECP keeps a strict eye and check on the matters concerning Directors of listed companies. Moreover, since their non compliance immediately comes into the eyes of the SECP and results in the delisting of the concerned company.

However, there are always ways to hoodwink SECP, as far as some of the clauses of the code are concerned. For e.g.:

- Clause 6.9: *The Code further requires that a declaration shall be filed with the SECP that the director is aware of his/her duties and powers under the relevant laws, memorandum and articles of association and listing regulations of stock exchanges in Pakistan. The declaration is to be filed along with the consent to act as director. In terms of Section 184, the consent must be filed with the Registrar within fourteen days of appointment or nomination.*

One can always assume that companies even do file the declaration; however there is no assurance that directors are fully aware and practice them.

- Section 7 of the Manual relates to matters concerning Financial Statements of the company. The clauses in this section are again a repetition of the requirements which companies need to comply with as per the Companies Ordinance 1984. This section also deals with the financial aspect of the Code of Corporate Governance. And is strictly followed by companies. The clauses relate to preparation, frequency, components, statements, requirements governing the preparation of financial statements.
- Clauses 7.23-7.27 deal with the Code's requirement to set up an internal control system. The findings say that companies do set it up however its effectiveness and appropriateness varies from company to company.
- Clause 7.29-7.55 relates to external auditors, the matters covered are qualification, criteria, appointment and removal, Rights and Powers, Duties and Penalty of non compliance by auditors. Again all the above discussed matters financial aspect of the code of Corporate Governance and are practiced by companies.
- Sections 7.56-7.70 broadly deal with the Role of Audit Committee. Clauses 7.56-7.59 deal with the Role and duties of audit committee and are generally practiced by companies as per our finding.
- However clauses 7.60-7.62 are not generally practiced in reality. Similarly Clauses 7.68-69 deal with the internal audit function. These findings suggest that this too is not practiced as suggested by the Code.

This brings the researcher to the end of the first part of the findings. It is concluded that companies do not follow the code 100 percent. Rather, the sections of the code which deal with financial aspects of a company are followed by most of the companies. However, those aspects of the code which deal with non financial matters are mostly overlooked by companies.

**Reason**:

- The reason for this behavior is that there are more than one institution and authority to ensure that companies comply and practice the financial portions of the Code of Corporate Governance, but not in case of non financial portions of the code.
- Tax authorities, audit authorities all make sure that companies follow the financial aspects of the Code properly. Monitoring of the compliance of the financial aspects is done by more than one institution; therefore companies do end up following it as it is easier to bypass one institution but not more than one.

Before the researchers proceed to next part of the findings, it is better to refer again that the beginning of findings where researchers mentioned references from the manual itself which clearly state that the Code of Corporate Governance is basically a set of Rules and Regulations whose compliance is made mandatory by SECP. However, here it is to be kept in mind human psyche also. Generally there is natural resistance to following rules and regulations and tendency to follow them only where it becomes extremely necessary.

This natural phenomena supports the findings that most of the companies consider compliance of the code of Corporate Governance as something unnecessary however since its compliance is being made mandatory, they do it out of bounding and not exactly with an intention to adopt best practices. In this regard, their major focus remains with the compliance of the financial aspects of the code only as its monitoring is done by more than one institution.

At the same time they tend to overlook the non financial aspects of the code and its compliance mostly remains on paper. The reason for this attitude is that there are no institutions working to keep an eye on the practical compliance of the non financial aspects of CG. SECP has introduced no tools which can gauge as to what extent the companies are complying with non financial aspects of the code.

The **SECOND** part of the findings relates to affect if any, on company performance of following Corporate Governance.

Before this part of findings is elaborated, first of all it is better to share the fact that the code of Corporate Governance is inspired from the codes of other countries and later tailored to adjust the Pakistani environment.

- Clause 2.20 says: *As part of its multi-dimensional strategy to enable Pakistan's corporate sector meets* *the challenges raised by the changing global business scenario and to build capacity, the SEC has focused, in part, on encouraging businesses to adopt good corporate governance practices. This is expected to provide transparency and accountability in the corporate sector and to safeguard the interests of stakeholders, including protection of minority shareholders' rights and strict audit compliance.*

Yes, in the more developed parts of the world, the concept of Corporate Governance has been in practice and a matter of research and improvement for decades. In Pakistan, the concept of Corporate Governance is still a novel idea. The concept is not yet mature. As suggested by the quoted reference, SECP has aimed to improve corporate practices with an aim to bring in a better, more transparent and accountable corporate culture. These findings suggest that the Code of CG has more of an administrative angle. Complete compliance with the code is a guarantee of administrative improvement in the company; however, compliance with CG is no guarantee of an increase in company performance.

The biggest proof of the above fact is the stock prices. The fluctuations in stock prices are not dependent on compliance with CG. Furthermore, the Manual says, In a McKinsey survey Issued in June 2000, investors from all over the world indicated that they would pay large premiums for companies with effective corporate governance. A number of surveys of investors in Europe and the US support the same findings and show that investors eventually reduce their investments in a company that practices poor governance.

The extract suggests that an aftermath of compliance with CG has increased investor confidence and eventually increased investment. This is certainly true in developed parts of the world. It is desire to make the readers understand that Pakistan is a developing country and so is her corporate sector. In this part of the world, investments are not entirely dependent on compliance with the code of corporate governance. Here investors have their own set of investment criteria. Compliance of CG happens to be a secondary consideration, whereas the primary remains their own sets of investment criteria.

**Statistical Analysis**

As statistical analysis, the hypotheses testing are done with the help of Minitab using single proportional technique. One assumption is; the reference value in both hypothesis testing is 0.5 and the reason is at least 50% annual reports demonstrate the aspects mentioned in respective hypotheses. In case of rejection of null hypotheses means even less than 50% reports fail to demonstrate them significantly. The findings of this statistical analysis are in line with the qualitative analysis and the conclusion is derived after this. Here they are:

Ho1: Impact of corporate governance on company performance is mentioned in the annual reports

HA1: Impact of corporate governance on company performance is not mentioned in the annual reports

$$\text{Ho1:} \quad \rho\text{Per} = 0.5$$
$$\text{HA1:} \quad \rho\text{Per} \neq 0.5$$

Ho1 = Null hypothesis

HA1 = Alternate hypothesis

ρPer = Impact of corporate governance on company performance is mentioned in terms of proportion.

**Test and CI for One Proportion: Per**

Test of p = 0.5 vs p not = 0.5

Event = 1

| Variable | X | N | Sample p | Exact 95% CI | P-Value |
|---|---|---|---|---|---|
| Per | 15 | 80 | 0.187500 | (0.108914, 0.290328) | 0.000 |

Here the results are that the reference value (0.5) is falling in the rejection region and p-value (0.0000) is also less than 0.05 (level of significance). These results demonstrate that there is no significant evidence to accept the null hypothesis that there is impact of corporate governance on company performance. Since null hypothesis is rejected, it indicates that companies are not showing impact of corporate governance on their performance in their annual reports.

Ho2: An approach or tool is used to measure the compliance of corporate governance.

HA2: An approach or tool is not used to measure the compliance of corporate governance.

Mathematical version is: $\text{Ho2:} \quad \rho\text{Comp} = 0.5$

$$\text{HA2:} \quad \rho\text{Comp} \neq 0.5$$

Ho2 = Null hypothesis

HA2 = Alternate hypothesis

ρComp = A tool is used to measure the compliance of corporate governance.

 

**Test of p = 0.5 vs p not = 0.5**
Event = 1

| Variable | X | N | Sample p | Exact 95% CI | P-Value |
|---|---|---|---|---|---|
| Comp | 8 | 80 | 0.100000 | (0.044171, 0.187565) | 0.000 |

Here the results are that the reference value (0.5) is falling in the rejection region and p-value (0.0000) is also less than 0.05 (level of significance). These results demonstrate that there is no significant evidence to accept the null hypothesis that companies are using any tool or approach to measure the compliance of corporate governance in organizations. Since null hypothesis is rejected, it indicates that companies are not using any tool or approach (like Balanced Scorecard) to measure the compliance of corporate governance and generally no evidence when researchers studied the annual reports.

## CONCLUSION

- ✓ The Code of Corporate Governance has two aspects: Financial and non financial.
- ✓ Since the monitoring of the compliance of the financial aspect of the Code is being done by more than one institution, companies usually end up following it.
- ✓ As SECP has not introduced any proper institution to check companies' compliance with the non financial aspect of the code, and there is no proper tool in place to gauge if the companies are really complying with it, companies' compliance with the non financial aspect of the code usually remains on paper only. Statistical analysis also supports these facts.
- ✓ Code of Corporate Governance (CG) has more of an administrative angle. Compliance of CG surely brings administrative improvement in the companies; however following Corporate Governance is no guarantee of an increased performance of the company.
- ✓ Code of Corporate Governance has no direct effect on company performance.
- ✓ Need of Corporate Governance established an idea that compliance with the Code of Corporate Governance leads to an increased investment and increased investor confidence. This might be true in developed parts of the world. However, for Pakistani investors compliance with the code of Corporate Governance remains a secondary investment criterion. Pakistani investors have their own unique set of investment criteria.
- ✓ The general attitude and perception of people towards CG is more of a compelled compliance. They still consider it as a set of law whose compliance is made mandatory by SECP. They follow it as a compulsion just to meet the compliance requirement of SECP. However, at this point in time, they do not yet follow CG whole heartedly with an intension to adopt the best Corporate Practices.

## RECOMMENDATIONS

- ➔ SECP should come up with a tool to gauge companies' compliance with the non financial aspects of the code. One of such tools is Balanced Scorecard, which is used to measure financial and non-financial aspects in strategic manner to measure and improve the corporate performance.
- ➔ There exists a need to work on the general perception of the corporations so that they, with the passage of time, adopt the code whole heartedly with a view to incorporate best corporate practices.
- ➔ Develop tangible criteria to measure level of good governance.

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